

Applicant	Background and Decision
<p data-bbox="162 331 320 456">Company A (MB applicant) (2013)</p> <p data-bbox="162 495 331 943">Rule reference: MB Rules 2.04, 4.01(1), 7.14, 7.15, 8.06, 8.08(1)(b), 8.08(3), 19A.13A, 19A.18(1); paragraph 37 of MB Appendix D1A</p>	<p data-bbox="363 331 512 360"><i>Background</i></p> <ol data-bbox="363 405 1455 1984" style="list-style-type: none"> <li data-bbox="363 405 1455 501">1. Company A was incorporated in Mainland China and both its A shares (“A Shares”) and its B shares (“B Shares”) had been listed on a PRC stock exchange for more than ten years. <li data-bbox="363 539 1455 748">2. Company A proposed to convert its entire B Shares into H shares (“H Shares”) and sought a listing of the H Shares on the Main Board by way of introduction (the “Proposed Introduction”). Its B Shareholders could choose to become H Shareholders or sell their B Shares before the Proposed Introduction to an independent third party (the “Third Party”) to be arranged by Company A (the “Cash Offer”). <li data-bbox="363 786 1455 949">3. All the H Shares (representing about 50% of Company A’s total issued shares) would be registered on the Hong Kong share register, and apart from the H Shares held by the existing substantial shareholders (representing about 30% of Company A’s total issued shares) which were subject to voluntary lock-up, all the H Shares would be available for trading on the Exchange. <li data-bbox="363 987 1455 1285">4. To ensure adequate liquidity in the trading of H Shares upon the Proposed Introduction, Company A proposed to procure at least 300 public B Shareholders to deposit the converted H Shares in broker accounts opened in Hong Kong, and those converted H Shares would have a minimum market capitalisation of HK\$1 billion and be ready to trade on the Exchange upon the Proposed Introduction (the “Proposed Arrangement”). These H Shares would be well above the latest 30-day accumulated trading volume of the B Shares on the PRC stock exchange and the required minimum market capitalisation of shares held by the public of HK\$50 million under MB Rule 8.09(1)¹. <li data-bbox="363 1323 1455 1532">5. The Cash Offer was not considered marketing activities of Company A’s shares in Hong Kong before listing given that it would be completed in Mainland China before the Proposed Introduction. In addition, the Cash Offer was to protect the B Shareholders’ interests if they did not intend to convert their B Shares into H Shares, and therefore it should not be deemed as a situation involving “marketing” or “pre-existing intention to dispose of securities” under MB Rule 7.15. <li data-bbox="363 1570 1455 1890">6. Company A would disclose: <ol style="list-style-type: none"> <li data-bbox="421 1644 1455 1740">(i) In its listing document, the Proposed Arrangement and a risk factor that its effectiveness might be subject to limitations, and the historical share price and trading volume of the B Shares by month for the last five years; and <li data-bbox="421 1778 1455 1890">(ii) By way of announcements on the websites of both the Exchange and the PRC stock exchange, the closing prices of the A Shares and B Shares on each of the three trading dates immediately before the Proposed Introduction. <li data-bbox="363 1906 1455 1984">7. Company A applied for waivers from strict compliance with certain requirements under the MB Rules, including the following:

¹ With effect from 15 February 2018, MB Rule 8.09(1) was revised such that the minimum public float value of securities was increased to HK\$125 million.

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	<ul style="list-style-type: none"> (i) Minimum public float requirements (in the event of non-compliance with those requirements after the Cash Offer): <ul style="list-style-type: none"> (a) MB Rule 8.08(1)(b)² to allow a minimum H Share public float of 10% with a market capitalisation of about HK\$3 billion; or³ (b) MB Rule 8.08(3) so that the aggregate shareholding of the three largest public shareholders would not exceed 65% of the total H Share public float upon the Proposed Introduction. (ii) Financial statement requirements: <ul style="list-style-type: none"> (a) MB Rule 4.01(1) and paragraph 37 of MB Appendix D1A so that the accountants' report would be replaced by Company A's published financial statements for the latest three financial years (the "Historical Financial Information"); and (b) MB Rule 8.06 to disclose interim financial information for the current financial year which had not been audited or reviewed by the reporting accountants ("Interim Financial Information"). (iii) Residency of INED <ul style="list-style-type: none"> (a) MB Rule 19A.18(1) so that Company A was not required to have an INED who is ordinarily resident in Hong Kong until its next annual general meeting ("AGM"). <p>8. The Exchange considered the following facts and circumstances in determining whether to grant the requested waivers:</p> <ul style="list-style-type: none"> (i) Minimum public float requirements: <ul style="list-style-type: none"> (a) The Proposed Arrangement indicated that there would be sufficient liquidity in the H Shares. (b) If the requested 10% H Share public float waiver was granted, the market capitalisation of the 10% H Share public float would be about HK\$3 billion. If the requested waiver to allow the aggregate shareholding of the three largest public shareholders not exceeding 65% of the total H Share public float was granted, the market capitalisation of H Share public float excluding the three largest public H Shareholders would be about HK\$2 billion. The market capitalisation of the relevant H Share public float under

² MB Rule 8.08(1)(b) was subsequently amended by Rule 19A.13A which requires that an A+H applicant's H Shares listed on the Exchange must, at the time of listing, be not less than 15% of the applicant's total number of issued shares (excluding treasury shares) with a market capitalisation of not less than HK\$125 million.

³ Company A only needed one of the following two waivers after completion of the Cash Offer:

- (i) If the Third Party acquired 10% or more of the total issued shares, it would not be regarded as a public shareholder and Company A would require a minimum public float (MB Rule 8.08(1)(b)) waiver as it would only have an H Share public float of about 10%; or
- (ii) If the Third Party acquired 9.99% or less of the total issued shares, it would be regarded as a public shareholder and Company A would be able to maintain an H Share public float of about 20% but would require a waiver on aggregate shareholding of the three largest public H Shareholders (MB Rule 8.08(3)) as the shareholding of its three largest public H shareholders would exceed 50% of the public float.

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	<p>both circumstances would be well above the minimum public float market capitalisation of HK\$50 million under MB Rules 8.08(1)(b)³ and 8.09(1)¹.</p> <p>(c) Company A had a B Share public float of about 20%, more than 60% of them were held by investors outside the PRC.</p> <p>(d) Company A had undertaken to increase the H Share public float to 15% as required under MB Rule 8.08(1)(b) within one year from the Proposed Introduction, subject to the China Securities Regulatory Commission's approval.</p> <p>(e) Company A was a listed company with a market capitalisation of about HK\$30 billion.</p> <p>(ii) Financial statements requirements:</p> <p>(a) The Proposed Introduction would not involve any new investors and all the existing shareholders had already been provided with the Historical Financial Information⁴. The same financial information would be provided to Hong Kong investors as to Company A's existing shareholders. If an accountants' report were to be prepared for Company A, no adjustment to the Historical Financial Information was expected.</p> <p>(b) Company A and its sponsor considered that the Historical Financial Information would provide adequate and sufficient information on its performance and financial position during the track record period to its existing shareholders and Hong Kong investors. In addition, Company A would disclose in its listing document a directors' confirmation that all material information had been included in the listing document and the information contained was accurate and complete in all material respects and not misleading or deceptive.</p> <p>(c) Company A's auditors and reporting accountants would provide it and its sponsor with a comfort letter with respect to the Interim Financial Information based on certain agreed upon procedures performed under China Certified Public Accountants Reviewing Standards No. 2101 Review of Financial Statements and the Interim Financial Information was for the interim period ended two months before Company A's listing document.</p> <p>(iii) Residency of INED:</p> <p>(a) Company A required more than three months to appoint an additional INED who is ordinarily resident in Hong Kong. The term of the current board would expire in the forthcoming AGM to be held within five months after the Proposed Introduction and Company A undertook to appoint an INED who is ordinarily resident in Hong Kong at the AGM.</p> <p>(b) Company A proposed to appoint professional parties which were familiar with business, legal and regulatory issues in Hong Kong such as a Hong Kong legal adviser so long as Company A was listed on the Exchange.</p>

⁴ The Historical Financial Information had been prepared under China Accounting Standards for Business Enterprises (acceptable accounting standards for PRC issuers under MB Rule 4.11) and audited by an approved PRC auditor under MB Rule 19A.08.

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	<p data-bbox="360 257 1453 358">9. Company A subsequently withdrew the public float waiver applications as soon as it became aware that it had sufficient public float under MB Rules 8.08(1)(b) and 8.08(3) after the Cash Offer.</p> <p data-bbox="360 398 472 427"><i>Decision</i></p> <p data-bbox="360 468 1453 533">10. The Exchange considered Company A's listing by way of the Proposed Introduction acceptable based on the particular facts and circumstances.</p> <p data-bbox="360 573 1453 741">11. The Exchange agreed to grant the requested waivers to Company A having considered the particular facts and circumstances. The waivers granted should not be treated as precedents for other companies seeking to convert their B shares into H shares and waiver applications of future cases would be considered on a case-by-case basis.</p>